current number of access lines,[123] the initial monthly surcharge needed to recover all of Verizon's reported one-time development costs would be approximately $0.08.[124] Because Verizon's total one-time costs do not vary, the monthly surcharge would decrease over time as the number of access lines grows.

As this example demonstrates, a competitively neutral surcharge would impose a manageable price on all Virginia telecommunications users for the benefits of creating a competitive local exchange environment that can bring down prices and increase service quality and choices for all consumers. In contrast, Verizon's prohibitively high proposed charges would stifle competition.

Q. ARE THERE ANY PRECEDENTS FOR THE TREATMENT OF OSS GATEWAY COSTS AS COMPETITION-ONSET COSTS THAT SHOULD BE RECOVERED IN A COMPETITIVELY NEUTRAL MANNER?

A. Yes. There are at least three precedents. First, the California Public Utilities Commission has required Pacific Bell and GTE California, Inc. (now a Verizon affiliate), to seek recovery of their OSS gateway costs through competitively neutral local competition implementation charges, not charges to competitors.[125]

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[123] We used Verizon's current number of access lines for June 2001 (*see* Verizon Maryland's Response to AT&T 6-53 and 6-54, Public Service Commission of Maryland Case 8879). Verizon has presented its access to OSS implementation costs on a regional basis and has proposed spreading some portion of the costs over the demand in Verizon-East-South and some portion over the demand for all of Verizon-East. For the purpose of this calculation, we have not changed Verizon's approach, just the demand over which the costs are spread.

[124] This estimate incorporates corrections to Verizon's factors discussed elsewhere in this testimony.

[125] CPUC D.98-12-079 at 47-48 (footnote omitted). A settlement allowing Verizon to recover a part of its claimed one-time local competition implementation costs through a surcharge on all of its customers is now pending before the California PUC. The

(footnote continued)

A second precedent for requiring incumbents to bear the costs of their own OSS gateways is an order of the New York Public Service Commission ("NYPSC"). In its Opinion No. 97-19, the NYPSC agreed with AT&T that "the law [the Telecommunications Act of 1996] would have required these steps [enhancements to OSS to permit multi-provider access] even if no CLEC were to use OSSs."[126] Moreover, although the NYPSC did not issue a final ruling on the cost recovery issue because it disallowed all of New York Telephone's proposed costs for access to OSS pending a further showing, it noted that "the recommended decision [of the Administrative Law Judge in the same proceeding] found a 'fair case' for spreading OSS development costs over the entire industry, incumbent carriers included, rather than recovering them solely from competing local exchange carriers."[127]

Finally, the treatment that we propose for OSS gateway costs is directly analogous to the treatment that the Commission has prescribed for number portability costs. In its Third Report and Order in CC Docket No. 95-116, the Commission directed that incumbents may recover their costs of implementing local number portability from their end-users. Incumbents are not to recover local number portability implementation costs from the new entrants. Like number portability, the OSS gateway is a cost that an incumbent such as Verizon must

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assigned Administrative Law Judge issued a draft decision approving the settlement on August 16, 2001.

126 NYPSC Opinion and Order in Phase 2 of Cases 95-C-0657 *et al.*, at 14.

127 *Id.* at 15.

incur to meet its legal obligations to enable local competition – in other words, a competition-onset cost. The Commission has applied a two-pronged test to determine whether both interim and long-term number portability costs are being borne in a competitively neutral manner.[128] The test requires that the method for recovering costs: "(1) must not give one service provider an appreciable, incremental cost advantage over another service provider when competing for a specific subscriber; and (2) must not disparately affect the ability of competing service providers to earn a normal return."[129] Our proposal for recovering the costs of OSS gateways meets these criteria because all carriers will bear the costs of their own OSS gateways and have to recover those costs from their retail customers, whereas Verizon's proposal does not.

Q. ARE THERE OTHER REASONS THAT THE COMMISSION SHOULD NOT ALLOW VERIZON TO FORCE NEW ENTRANTS TO PAY FOR ITS COMPETITION-ONSET COSTS?

A. Yes. If new entrants were to pay for Verizon's competition-onset costs, including the gateway Verizon developed, there is virtually no chance that Verizon would select the most efficient means for complying with the mandate to open its markets to competition. Verizon does not want entry. If it can comply with the mandate at high cost but force new entrants to pay the cost, it is much less likely to face effective competition. The only way to create an incentive for Verizon to

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128 Third Report and Order, *In the Matter of Telephone Number Portability*, CC Docket No. 95-116, adopted May 5, 1998, rel. May 12, 1998, ¶¶ 53-4.

129 *Id.* at ¶ 53.

comply with the mandate to open its markets to competition in the most efficient manner possible would be to force Verizon to bear the cost of creating its own gateway.

In this case, Verizon's expectation that it would likely be able to pass along its costs of developing new gateways created such an incentive for inefficiency. Indeed, Verizon did not proceed with development as efficiently as it might have. Instead, it resisted the development of gateways and functionalities for competitors repeatedly, slowing and complicating their development. Competitors should not now be asked to bear the cost of that inefficiency. Furthermore, Verizon now has an incentive to inflate the magnitude of the costs it incurred to develop the gateways. Verizon's documentation in this proceeding is far from sufficient to determine if Verizon has acted on that incentive. Any costs for elements that Verizon expects to impose solely on competitors are an opportunity for it to disadvantage competitors, and, as such, require a much higher level of scrutiny than Verizon has allowed here.

Q. DO THE INITIAL DEVELOPMENT COSTS PRESENTED BY VERIZON COMPLY WITH FORWARD-LOOKING ECONOMIC PRINCIPLES?

A. No. Verizon's study unquestionably violates TELRIC principles in fundamental respects. First, it measures *actual incurred* costs rather than the forward-looking costs that would be incurred in a reconstructed network. Verizon's study is based for the most part on costs that were actually incurred in 1996, 1997, 1998 and 1999. Nonetheless, the company asserts these "costs were forward-looking at the time they were incurred"[130] and therefore are appropriate for inclusion in a forward-looking study. This statement reveals a deep misunderstanding of the economic meaning of forward-looking costs. Under this logic, it is difficult to see what embedded investment Verizon would not consider to be "forward-looking." Yet that clearly is not the intent of the Commission's TELRIC methodology. Ms. Murray discusses Verizon's misunderstanding of TELRIC in her concurrently filed rebuttal testimony on economic and policy issues.

Instead, Verizon should have determined the forward-looking costs that an efficient provider would incur to build its OSS using the best available technology. In a reconstructed local network, Verizon would design its OSS to accommodate multiple providers from the start. Neither the entire capital cost of those OSS nor the ongoing maintenance cost for such systems would be attributable solely to competitors.

Q. WHAT ARE THE DOCUMENTATION PROBLEMS TO WHICH YOU ALLUDED?

A. The information provided by Verizon is woefully insufficient to permit parties or the Commission even to verify the level of the claimed costs, much less to determine their appropriateness. Verizon has provided access to OSS cost data only on the most aggregate level. It has made no attempt to break out the costs associated with particular efforts or projects. Verizon's own witness on its

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130 Verizon Cost Panel Direct at 247.

proposed access to OSS cost study, Mr. Minion,[131] has not reviewed the proposed costs for reasonableness. Mr. Minion recently filed similar testimony on Access to OSS costs[132] in Public Service Commission of Maryland Case 8879 as part of a two-witness panel. In that case, Verizon admitted "[n]either Mr. Minion nor Ms. Prosini reviewed any documents that were specific to the reasonableness of the costs associated with capabilities of individual systems."[133]

Apparently, Verizon would have this Commission rely, as its own witness did, "upon Verizon's accounting processes, wage/bill/and voucher verification and approval processes and internal project controls to ensure the accuracy and reasonableness of the expenditures."[134] We are less convinced in infallibility of Verizon accounting processes in evaluating the appropriateness of costs. These same accounting processes seem to have failed Verizon even on the level of compiling the costs for this study. While some of dollar values presented by Verizon in the access to OSS cost study (Verizon Exhibit Part F-5) claim to be based on "company records," others are based on "company estimates." Verizon was forced to "estimate" many costs, apparently because Verizon does not or did not track the relevant information. For example, when asked for a breakdown of costs by its own "access to OSS" tracking codes, Verizon replied:

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131 Verizon Cost Panel Direct at 3.

132 Because Verizon has developed these costs on a regional basis, the cost filed in Maryland is fundamentally the same as Verizon has presented here.

133 *See* Verizon Maryland's Responses to AT&T 7-18, 7-24, 7-27, 7-30, 7-33, and 7-37.

134 *See id.*

> In conducting its study, the company relied upon a different categorization of expenditures. As such, historical information is not readily available by [Keep Cost Orders] before 1999.[135]

Finally, Verizon has provided no evidence that the costs it reports were tracked properly to "access to OSS" projects. As we have already explained, Verizon has every incentive to load as many costs into accounts that it believes it might ultimately be able to recover solely from competitors. A careful review of detailed cost break-out might reveal costs that were not prudently incurred or were not relevant to OSS access or perhaps were even related to gathering information for regulatory filing in which Verizon resisted implementation of non-discriminatory OSS. Unfortunately, Verizon does not seem to have made such a review. Nor does Verizon seem to have educated its employees on the importance of tracking these costs properly. Verizon was unable to produce instructions to the employees responsible for logging charges to the Access to OSS accounts.[136]

Q. HAS VERIZON SHOWN ITS CLAIMED ACCESS TO OSS COSTS TO BE APPROPRIATE FOR RECOVERY?

A. No. Verizon's presentation here fails to address key issues related to the appropriateness of recovering these costs from new entrants. Verizon's determination to recover already-incurred costs precludes its study from being

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[135] Verizon Maryland's Responses to AT&T 6-30 and 6-31, Public Service Commission of Maryland Case 8879. *See also*, Verizon Exhibit Part F-5, Tab WP4 PG1 and Tab WP4 PG6, OngInv for further examples.

[136] *See* Verizon Maryland's Responses to AT&T 6-30 and 6-31, PSC of Maryland Case 8879, in which Verizon stated that "[n]o such explicit instructions exist."

forward-looking, as we have already discussed. But Verizon has also not shown, for example, that the costs were efficiently and prudently incurred and that they benefit new entrants exclusively. Nor has Verizon shown that the costs reflect no duplication of effort across projects or that there was no duplication of functionality amongst the interfaces. Verizon has not even established that all of its claimed costs were incurred to provide functionality that ultimately became or will become available to competitors; Verizon may have included cost for projects that did not come to fruition. Similarly, some of the multiple interfaces and gateway systems developed by Verizon may have been interim solutions that have been, or soon will be, replaced.

In particular, Verizon has made no attempt to prove that none of the costs were incurred as a result of the merger between NYNEX and Bell Atlantic. Verizon is required to provide uniform OSS interfaces pursuant to the Commission's merger conditions. Competitors should not be made to pay for any costs of comporting legacy or gateway systems between the companies, which were imposed by Commission mandate as a price that Verizon had to pay to complete its merger. Yet Verizon's approach may very well include such costs in its Access to OSS charge. At any event, Verizon has not given any reason to believe they are not. Furthermore, Verizon has supplied no evidence that the systems it developed in the East - South region were not replaced (or will soon be replaced) by systems developed in the East - North region, or vice versa.

Verizon has not demonstrated that these so-called access to OSS costs have not already been recovered, in whole or in part, through previously adopted recurring prices. For example, Verizon has not shown that it had backed any such costs out of its expense factors for previously adopted recurring prices. If those prices were based on expenses for 1996 or later and the costs of OSS development were not excluded from the calculation of expense factors, then Verizon has been recovering the costs of OSS access through UNEs in the meantime. And, despite its claims to the contrary, Verizon has failed to ensure that its current submission represents no potential double-recovery of OSS costs. (We discuss this point in more detail below.)

Finally, Verizon has not shown that the OSS projects for which it seeks special cost recovery placed an unusual burden on its Information Management organization, i.e., that it was in any way out of the ordinary course of business. For example, Verizon does not plan to reduce the number of employees in its Information Management and Network organizations once significant one-time development of OSS for UNE services is complete.[137]

For all of these reasons, if the Commission were – inappropriately – to allow Verizon to impose its initial development cost for OSS access solely on new entrants, it should not rely on Verizon's cost estimates.

The difficult task of determining the extent of imprudent or non-forward-looking costs exists only if the Commission chooses to authorize an explicit "access to OSS" charge to new entrants or to create a surcharge on all Virginia

[137] Verizon Maryland's Response to AT&T 7-43, Public Service Commission of Maryland Case 8879.

telecommunications users to recover Verizon's asserted costs. If, instead, the Commission adopts our primary recommendation to have each competitor bear its own costs for access to OSS, Verizon will have the correct incentive to minimize or eliminate inefficient costs and the Commission will not be placed in the unenviable position of having to determine Verizon's prudently incurred costs for its gateway systems, a task made more difficult by virtue of Verizon's failure to meet its burden of establishing which of its costs were prudently incurred.

2. VERIZON PROPOSES EXCESSIVE AND IMPROPER RECOVERY OF ITS ONGOING OSS MAINTENANCE AND CAPITAL COSTS.

Q. WHAT ONGOING COSTS HAS VERIZON INCLUDED IN ITS PROPOSED ACCESS TO OSS CHARGE?

A. Verizon has included $50 million in ongoing costs per year for its entire Verizon–East footprint.[138] These ongoing costs account for 56% of Verizon's proposed Access to OSS charge. Verizon's estimate of ongoing costs includes costs of software maintenance, as well as capital and maintenance costs associated with the computer hardware.[139]

Q. HOW HAS VERIZON ESTIMATED ONGOING SOFTWARE MAINTENANCE EXPENSES ASSOCIATED WITH ACCESS TO OSS?

A. Verizon did not estimate ongoing costs directly, but instead Verizon assumed that annual software maintenance costs associated with "work done to improve

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[138] *Id.* at 245.

[139] Verizon Cost Panel Direct at 284.

software performance, adapting software to changes in its environment, and correcting operational faults"[140] would be 15% of the initial development costs. Verizon does not track costs for the initial development separately from these supposed maintenance costs;[141] to compensate for this omission, Verizon has assumed a portion of its 1998 incurred access to OSS costs were in fact the costs of upgrading and maintaining the systems built in 1996 and 1997, and that a portion of its 1999 incurred access to OSS costs were in fact the costs of upgrading and maintaining the systems built in 1996, 1997 and 1998. Verizon used the assumed 15% maintenance factor to approximate these "ongoing" expenses. Verizon classified the remainder of the expenditures for those years as one-time development costs.

Q. DOES IT MAKE SENSE TO RECOVER SOFTWARE MAINTENANCE EXPENSES THROUGH AN EXPLICIT OSS SURCHARGE?

A. No. Once again, Verizon is attempting to impose the costs of a multi-provider environment solely on the end user of new entrants. Software maintenance is a normal part of Verizon's business and should be treated as such.[142] Indeed, given the manner in which Verizon has calculated the costs of ongoing maintenance, as

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140 *Id.* at 288.

141 *Id.* at 276.

142 As another incumbent, Pacific Bell (a subsidiary of SBC), explained when discussing similar costs: "[u]pgrades or enhancements to capabilities were not included in Pacific's implementation cost filing.... These upgrades and enhancements would be part of the normal course of business." Pacific Bell Response to AT&T Set 5, No. 88, Implementation Cost Phase of California Public Utilities Commission's Local Competition Docket R. 95-04-043, I. 95-04-044.

a fixed amount keyed to already-incurred development costs, implies that those costs will not vary with competitive local exchange carrier demand. Furthermore, Verizon does not track these maintenance costs separately from other OSS expenditures. In many cases, Verizon modified its existing systems to accommodate multiple providers. Work on the core systems accounts for a substantial portion of Verizon's initial development costs, approximately 78%. It is entirely unclear how Verizon can now reasonably segregate some portion of the cost of maintaining its core systems and assign it solely to competitors.

Even assuming that Verizon's approach had appropriately identified the causers of the costs it is intended to recover – which it has not – Verizon's proposed mechanism to recover those costs is clumsy and inappropriate at best. Verizon asks this Commission to fix an Access to OSS charge for ten years into the future and beyond, based on a speculative approximation of costs it does not (and perhaps cannot) track separately, without any regard for changing circumstances over that time period such as efficiency or productivity gains. Verizon has not even, as far as we are aware, proposed any mechanism to true-up recovery based on actual recovery.

Q. HOW HAS VERIZON ESTIMATED ONGOING CAPITAL COSTS ASSOCIATED WITH ACCESS TO OSS?

A. Verizon based its capital investment on actual purchases for 1996 and 1997, and budget estimates for 1998 and 1999 expenditures that were made in late 1998.[143]

Q. IN WHAT WAYS DO VERIZON'S REPORTED ONGOING CAPITAL COSTS FOR ACCESS TO OSS EXCEED EFFICIENT, FORWARD-LOOKING COSTS?

A. As we note above, Verizon has based its "forward-looking" costs on actual purchases (that is, its embedded network) and forecasts estimates that were made in late 1998. These estimates have nothing to do with the forward-looking investment that access to OSS might require. Moreover, forward-looking costs are the costs that an efficient provider would incur to meet the total demand for a product, service or function using the best available technology *costed out at the cost for the pricing period*, not some vintaged cost. Where prices are either rising or falling significantly over time, use of vintaged cost estimates will dramatically misstate forward-looking costs. Verizon's own testimony quantifies a substantial decrease in OSS computer costs from 1996 through 1999 (from $3,000 per GIG to $600 per GIG and from $25,000 per MIPS to $10,000 per MIPS, for 1996 and 1999 respectively).[144] These reductions apply to mainframe equipment; similar reductions have occurred for mid-range equipment such as that included in the OSS interface or gateway. According to Verizon's cost panel, Verizon did at least

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[143] Verizon Maryland's Response to AT&T 6-45, Public Service Commission of Maryland Case 8879.

[144] Verizon Cost Panel Direct. at 286.

cost some of the hardware at 1999 prices.[145] However, applying the forward-looking methodology, Verizon should have costed out computer equipment at 2002 prices (or, at the very least, the best prices of 2001), rather than reflecting the actual prices paid for equipment purchased in earlier years.

Furthermore, Verizon's study fails to demonstrate that the costs identified are necessary to serve actual and reasonably expected demand.

Q. DOES IT MAKE SENSE TO RECOVER VERIZON'S ESTIMATED CAPITAL EXPENSES THROUGH AN EXPLICIT OSS SURCHARGE?

A. No. It is difficult to isolate the computer investment that is used exclusively to meet competitor demand, and Verizon has not provided enough information to really do so. Verizon acknowledges, for example, that "[s]ince mainframe equipment is purchased in bulk, it is not always possible to correlate actual purchases with the demand that caused the purchase."[146]

Q. HOW SHOULD VERIZON RECOVER ITS ONGOING OSS COSTS?

A. For all of the reasons we have enumerated, the ongoing costs of the systems developed to allow 4access to Verizon's OSS should not be handled as a part of Verizon's competition-onset costs or through a separate OSS surcharge. Verizon should capture these expenses in the same way it captures all normal forward-looking recurring OSS expenses, through its annual cost factors.

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145 *Id.*

146 Verizon Maryland's Response to AT&T 6-45, Public Service Commission of Maryland Case 8879.

Verizon has adjusted its "other support" factor to account for these ongoing costs. Therefore, in our restatement of the "other support" factor, presented elsewhere in this testimony, we have reversed Verizon's proposed adjustment to that factor, which has the effect of increasing the factor. We recommend that the Commission remove the "ongoing" portion of Verizon's proposed Access to OSS charge entirely and adopt an "other support" factor of **[BEGIN VERIZON PROPRIETARY]** *** **[END VERIZON PROPRIETARY]** All of the restatements presented in this testimony are calculated using that "other support" factor. [147]

Q. SHOULD THE COMMISSION RELY ON VERIZON'S ESTIMATES OF ONGOING ACCESS TO OSS COSTS?

A. No. If the Commission were – inappropriately – to allow Verizon to impose its ongoing development cost for OSS access solely on new entrants, it cannot rely on Verizon's cost estimates. Verizon's estimate of the ongoing software costs suffers from the same deficiencies as its estimate of one-time development costs, in particular because the maintenance costs are merely calculated as a percentage of the initial development costs. To the extent that Verizon has included inappropriate costs in its estimates of one-time costs, they would inflate the purported ongoing maintenance costs. Verizon has also not attempted to identify

[147] Consequently, if the Commission were to reject our recommendation regarding the ongoing costs of OSS access, then it must also re-adjust the "other support" factor to avoid double recovery of those costs and recalculate all of the UNE prices. In that case, the "other support" factor would be **[BEGIN VERIZON PROPRIETARY]** *** **[END VERIZON PROPRIETARY]**

which systems might reasonably be expected to need continuing updating and/or maintaining. For example, systems that have become obsolete since their development as a result of either one of Verizon's mergers or the evolution of the market will presumably not need to be maintained in the future.

Q. YOU INDICATED ABOVE THAT VERIZON HAS NOT ELIMINATED THE POSSIBILITY OF DOUBLE-RECOVERY THROUGH ITS "ACCESS TO OSS" CHARGE. WHY IS VERIZON'S EXCLUSION OF "ONGOING MAINTENANCE" COSTS FROM THE "OTHER SUPPORT" FACTOR INSUFFICIENT TO PRECLUDE DOUBLE-RECOVERY OF "ACCESS TO OSS" COSTS?

A. Verizon has estimated that a portion of the OSS costs incurred in 1999 (the year on which the other support calculation was based) were actually costs necessary to maintaining the systems that were developed in earlier years *(i.e.,* 1996, 1997 and 1998). The remaining costs Verizon attributes to "one-time development." Verizon has excluded the ongoing maintenance portion of the OSS costs from Information Management expenses that are included in the other support factor calculation. Verizon was forced to estimate the portion of the costs that were ongoing maintenance expenses, because, as the Verizon's cost panel indicated, "[t]he mechanisms Verizon VA used to track the expenses associated with access to OSS do not differentiate between development and maintenance."[148] How is it, then, that the maintenance costs could have been in the expenses used to calculate the other support factor, *if the one-time development expenses were not included as well*?

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[148] Verizon Cost Panel Direct at 276.

We believe that Verizon's cost panel is admitting, here, that the one-time and ongoing costs are tracked in the same accounts, and as such would have both been captured in the same information management expenses that Verizon used to develop its other support factor. Verizon is therefore attempting to double-recover its costs of Access to OSS development. At a minimum, the Commission must direct Verizon to remove the one-time OSS development costs from the information management costs used in its factor development. Removal of the ***** VERIZON PROPRIETARY** $80.5 Million *****END PROPRIETARY** in one-time OSS development costs that Verizon has estimated it incurred in 1999[149] from the Information Management component would lower Verizon's "other support" factor (with no other changes) from **[BEGIN VERIZON PROPRIETARY] *** [END VERIZON PROPRIETARY]**

Q. WHAT IS YOUR RECOMMENDATION REGARDING VERIZON'S PROPOSED ACCESS TO OSS COST STUDY?

A. Any costs that Verizon expects to apply only to its competitors must be scrutinized particularly carefully. Therefore, if the Commission were to reject our proposal of competitively neutral recovery and consider allowing Verizon to impose an Access to OSS charge, the Commission should hold Verizon to a strict burden of proof in justifying recovery claims for modifications to Verizon's OSS

[149] These costs need to be removed from the factor development, regardless of whether the Commission adopts our recommendation of competitively neutral recovery of competition-onset charges. If the Commission allows the OSS charge, then this is double-recovery; if the Commission accepts the idea of competitively neutral recovery, then these costs must be removed in order to achieve it.

in connection with UNEs. Verizon has not met this burden. Therefore, we recommend that Commission reject Verizon's proposed charge unless and until it has provided the necessary documentation.

VII. VERIZON'S PROPOSED DAILY USAGE FILE MESSAGE RECORDING CHARGE FAR OVER-RECOVERS ITS COSTS.

Q. WHAT IS THE DAILY USAGE FILE?

A. The Daily Usage File ("DUF") provides competitors with records of their customers' intraLATA local and toll usage detail for billing purposes. Each call is recorded as a "message." Verizon has proposed several DUF charges for recording and transmitting the DUF messages, the most significant of which is a per-message "Message Recording" charge.

Q. IS VERIZON'S PROPOSED DUF "MESSAGE RECORDING" CHARGE REASONABLE?

A. No. Verizon's proposed charge of $0.0015 per message represents a huge increase over the current price in Virginia of $.000246 per message (which is itself inflated). Verizon's proposed price here is six times higher than the current price. It is also well out of proportion with the adopted prices in other states, calling its reasonableness into question.[150] If one assumes approximately 200

[150] The current price that Verizon charges in Maryland is $0.000267 per message and in Pennsylvania is $.000261 per message, respectively only 17.8% and 17.4% of the charge proposed for Virginia.

messages per line per month, this charge would add $0.30 per line per month to the cost of a loop.

Q. WHAT DRIVES THE INCREASE IN VERIZON'S PROPOSED DUF "MESSAGE RECORDING" CHARGE?

A. Verizon has assumed over *****VERIZON PROPRIETARY** $1.1 million **END PROPRIETARY***** in purported "CLEC support labor" charges.[151] Verizon attributes this cost to almost 15 support employees who monitor and manage the product, as well as manually handle errors in the automated processes.[152] These unsubstantiated costs account for 99% of the costs that Verizon seeks to recover in its per-message recording charge.

Q. IS THIS LEVEL OF CLEC SUPPORT COSTS APPROPRIATE?

A. No. Verizon has certainly miscalculated the "support" costs associated with each DUF message. Moreover, including these supposed labor costs in the per-message DUF charge would likely double-recover Verizon's costs. The types of costs Verizon has included here are the same types of costs it claims to be recovering through its proposed annual cost factors.[153] As far as we can tell,

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[151] Verizon VA Exhibit Part F-3, Tab 4.3.

[152] Verizon MD Response to AT&T 6-10 in Public Service Commission of Maryland Case 8879. Verizon has not supplied sufficient data to enable us to determine why so many employees are required for this process, if those employees are actually dealing primarily with data errors in some manner, running some sort of programs, *etc.* In other words, Verizon has made no effort to establish that this level of manual effort, which it would impose as a cost on competitors but would not incur as part of its own cost for retail operations, is necessary, efficient or reasonable.

[153] *See, e.g.*, Verizon Cost Panel Direct at 64 for a discussion of "customer care" expenses.

Verizon has made no attempt to remove such costs from the expenses it uses to develop its recurring cost factors, so these costs may be recovered twice under VZ's cost construct.

Q. HOW HAS VERIZON MISCALCULATED THE "CLEC SUPPORT" COSTS ASSOCIATED WITH EACH DUF MESSAGE?

A. Verizon intends to apply the DUF Message Recording for each exchange message interface record (*i.e.*, each message). However, when calculating the per-message charge, Verizon did not use the total message demand to which its charge would be applied. Verizon spread the support costs over its projected Customer Billing Organization ("CBO") message demand.[154] Verizon has described this demand as representing the "annual number of errors/messages the [CLEC Support] employees handle."[155] Thus, this demand seems to represent only the messages that require manual handling. Verizon should have spread the support costs, if indeed they were appropriate at all, over the entire universe of messages, including those that did not require manual intervention. This error results in extremely inflated costs per message.

Verizon assumed a CBO annual message demand of **[BEGIN VERIZON PROPRIETARY] *** [END VERIZON PROPRIETARY]** However, Verizon records many times that number of messages in a year. For example, Verizon

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154 Verizon VA Exhibit Part F-3, Tab 4.3.

155 Verizon Maryland Response to AT&T 6-12, Public Service Commission of Maryland Case 8879. *See also* Verizon Maryland Response to AT&T 6-15, in which Verizon (footnote continued)

assumed that **[BEGIN VERIZON PROPRIETARY]** *** **[END VERIZON PROPRIETARY]** messages will be transmitted using the Network Data Mover per year. This is over twenty times the number of "CBO messages." Using Verizon's projected resale and UNE platform/combination demand[156] and assuming that each resale loop and UNE platform has approximately 200 messages per line per month, the levelized total annual number of messages recorded would be something like **[BEGIN VERIZON PROPRIETARY]** *** **[END VERIZON PROPRIETARY]** If Verizon applied its proposed Message Recording to each, it would recover over twenty-five times its estimated support costs, turning this function into a profit center and creating hurdles for its competitors at the same time.

Correcting Verizon's proposed Message Recording charge for this error, along with corrections to Verizon's factors discussed elsewhere in this testimony, results in a per-message charge of $0.00007.

Q. SHOULD THE COMMISSION ALLOW RECOVERY OF EVEN A PROPERLY ADJUSTED LEVEL OF VERIZON'S CLAIMED DUF COST PER MESSAGE?

A. No. Even adjusted so that it would properly reflect Verizon's proposed per message application, any level of DUF per message charge will probably result in discriminatory, above-cost prices for all UNE and resale usage. As we noted

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states that the "CBO annual messages represents the work handled by the CBO work group that support (sic) the DUF product."

156 Verizon Exhibit Part F-5, WKP II.

above, there is no reason to believe that employee expenses for routine business operations such as usage data processing are not already included in the expense loading factors that Verizon applied to the switching UNE and other elements. Unless Verizon *demonstrates* otherwise, the Commission should therefore assume that this cost is already recovered in the switching UNE calculation. Moreover, the Commission should not allow Verizon to impose any extra cost on competitors simply to hand over usage data unless Verizon can show that the process it is using is as efficient as the process that it uses and considered in developing its retail service.

Q. DOES THAT CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes.

I, Michael R. Baranowski hereby swear and affirm that the foregoing rebuttal testimony was prepared by me or under my direct supervision or control and is true and accurate to the best of my knowledge and belief.

Signed:

Michael R. Baranowski

I, Terry L. Murray, hereby swear and affirm that the foregoing rebuttal testimony was prepared by me or under my direct supervision or control and is true and accurate to the best of my knowledge and belief.

Signed:

Terry L. Murray

I, Catherine E. Pitts, hereby swear and affirm that the foregoing rebuttal testimony was prepared by me or under my direct supervision or control and is true and accurate to the best of my knowledge and belief.

Signed:

Catherine E Pitts